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REPORT ON EXAMINATION

of

DELTA DENTAL PLAN OF TENNESSEE

Nashville, Tennessee

as of

December 31, 2002

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Dept. Of Commerce & Insurance
Company Examinations

**THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
Nashville, Tennessee**

Exhibit A

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Nashville, Tennessee
January 6, 2004

Honorable Paula A. Flowers
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243-1135

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws and regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination and market conduct review has been made of the condition and affairs of

DELTA DENTAL PLAN OF TENNESSEE
Nashville, Tennessee

hereinafter generally referred to as the "Company." The Company was examined at its main administrative office, 240 Venture Circle, Nashville, Tennessee, and a report thereon is submitted as follows:

INTRODUCTION

This examination as of December 31, 2002, was arranged by the Department of Commerce and Insurance of the State of Tennessee (The Department) under rules promulgated by the National Association of Insurance Commissioners. It was commenced on June 6, 2003 and was conducted by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee.

The previous examination was made as of December 31, 1998 by an examiner of the State of Tennessee.

PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS

1. At December 31, 1998 the Company had investments in common stocks being held by a brokerage firm. No confirmation of these investments was provided during the examination. Additionally, pursuant to Tennessee Regulation 0780-1-46-03, securities held by a brokerage firm is not a permissible method for insurance companies to hold

securities. It was recommended that the Company use one of the permissible methods as described in the Tennessee Regulation 0780-1-46-03, to hold its investments in common stocks. On October 20, 1999 the Company provided the Tennessee Department of Commerce and Insurance a draft copy of its proposed custodian agreement which appeared to meet the necessary requirements set forth in the Tennessee Regulation 0780-1-46-03. The Company and First Tennessee Bank National Association executed the custodian agreement on October 20, 1999.

2. During the examination, the Company could not provide detailed financial records for all the years under examination. The Company does not generate detailed reports at year end and the Company's accounting software only retains a maximum history of twenty-four (24) months. This lack of records retention appears to be a violation of TCA § 56-30-116. The Examiner recommended that the Company maintain adequate records and work papers to support the detail of all accounting transactions and year-end annual statement values. It was also mentioned these records should be retained until, such records have been examined by the Tennessee Department of Commerce and Insurance and/or the Department instructs the Company that such records can be destroyed. During the current examination, the Examiner was able to obtain detailed financial records for the years under examination. If certain records were requested that were not maintained on the Company's premises, such records were retrievable from the Company's archives.
3. During the course of the examination several misclassifications and omissions of details were found in the Company's 1998 annual statement. This appears to be a violation of TCA §56-1-501. It was recommended that the Company carry out the preparation and completion of its annual statement in accordance with instructions as promulgated by the National Association of Insurance Commissioners. As for the current examination, the Examiner did not find any misclassifications or omissions of details in the Company's annual statements.
4. As noted in the Fidelity Bond and Other Insurance section of the report, coverage was less than the minimum amount suggested by the National Association of Insurance Commissioners. The Examiner recommended that the Company increase its fidelity coverage to meet the minimum amount required. For the period under review, it was noted that the Company's fidelity bond is still currently less than the suggested minimum as reflected in the NAIC Financial Condition Examiners Handbook. See comment number (1) under the Comments and Recommendations section of the report, page 19.
5. The Company had securities deposited with a custodian bank, however, the Company had no custodian affidavit as required by the Tennessee Regulations 0780-1-46-04, nor was there a safekeeping agreement with the bank. During the course of the examination, custodian affidavits were obtained August and September 2003 and a safekeeping agreement was executed June, 1999.

6. The Company had no formal written procedures for the handling of customer complaints and the Company did not maintain a complaint log. During the examination, the Company formulated written procedures for handling customer complaints. For the current examination, the Examiner verified the actual complaint procedure as well as reviewed a sample of the complaints.

SCOPE OF EXAMINATION

The period covered hereunder is from December 31, 1998, the date of the previous examination, to the close of business on December 31, 2002, the date of this examination.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2002. The Company's financial solvency and the degree thereof were established. Test checks covering selected periods were made of income and disbursement items, and a general review was made of the Company's operations, practices, and compliance with statutes, to the extent hereinafter set forth.

An examination of all asset and liability items contained in the financial statement of this report was made and individual items were verified with equal emphasis, regardless of size or their potential impact on reserves and unassigned funds.

An examination encompassed a review of the following matters:

- Company History
- Charter and By-Laws
- Management and Control
- Corporate Records
- Administrative Services Agreement
- Insurance Holding Company System
- Affiliated Companies
- Subsequent Events
- Fidelity Bond and Other Insurance
- Officers', Employees', and Agents' Welfare and Pension Plans
- Territory and Plan of Operation
- Growth of Company
- Timely Reimbursement of Health Insurance Claims
- Market Conduct Activities
- Accounts and Records
- Litigation and Contingent Liabilities
- Financial Statement

They are discussed in detail as follows:

COMPANY HISTORY

The Company was incorporated on September 20, 1965 as the Tennessee Dental Service Corporation. It was organized pursuant to the "Dental Service Plan Law, 1961", Tenn. Code Ann. §56-30-101 et seq, Tennessee Code Annotated. The Company was issued a Certificate of Authority on July 17, 1969, to commence the business of a dental service plan. On October 6, 1970, the Company's name was changed to Delta Dental Plan of Tennessee. The Company formed Delta Dental Service, a non-profit corporation, on February 19, 1993. Effective June 29, 1993, Delta Dental Service and the Company merged and Delta Dental Plan of Tennessee became the surviving corporation.

CHARTER AND BY-LAWS

The Company's original charter was filed and recorded with the Tennessee Secretary of State on September 20, 1965. The original charter was amended and restated on June 29, 1993, pursuant to Title 48, Chapter 61 of the Tennessee Nonprofit Corporation Act. The restated charter established the Company as a nonprofit public benefit corporation and states the purpose for which the Company is formed is to operate a dental service plan in accordance with Tennessee's Dental Service Plan Law, 1961, and to conduct any other lawful business. The charter established that the Company shall have membership. Additionally, the charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. On September 27, 1996, an amendment to the Company's charter was filed for the purpose of changing the address of the Company to its current address at 240 Venture Circle, Nashville, Tennessee.

The bylaws are such as those generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company's officers, directors and members. The bylaws may be repealed or amended by an affirmative vote of two-thirds (2/3) of the Board of Directors.

MANAGEMENT AND CONTROL

Control of the Company is vested in its members. The membership of the Company consists of dentists licensed to practice dentistry in the State of Tennessee and who has his/her practice in the State of Tennessee.

The following persons were serving as directors at December 31, 2002:

Name

Occupation

Mr. L.C. Burkhalter	Retired Businessman
Dr. Bruce Baird	Dentist

Dr. Dan Bottomley	Retired Dentist
Mr. Cliff Dowell	Insurance Broker
Mrs. Jerre Harris	Benefits Director/Thomas & Betts
Dr. James E. Sexton	Dentist
Dr. Joseph F. Rainey	Dentist
Mr. John R. Collier	Engineer/Hospital
Dr. Paul Bacon	Dentist
Dr. Wayne L. Johnson	Dentist
*Dr. Phil Wenk,	President and CEO
*Dr. Victor, Beck	Dentist
Dr. Pete Marshall	Dentist

Dr. Campbell Sowell, Jr.	Dentist
Mr. Leslie Sellers	Real Estate Broker
Dr. David C. Morton	Retired Dentist
Mr. Drew Robinson	Lawyer
Dr. Carmen Reagan	Consultant at Austin Peavy State University

***Exofficio Board Members**

The following individuals were serving as members of the Investment Committee at December 31, 2002:

Dr. Philip Wenk
Dr. Bruce Baird
Mr. J. Thomas Perry
Mr. Robert Maxwell
Mr. Robert Perry

The bylaws provide that the Company will have a Chairman of the board, Vice Chairman of the board, president, secretary, and treasurer or other officers as may be elected or appointed by the board of directors. The following persons were serving at December 31, 2002:

Name

Office

Dr. James E. Sexton	Chairman
Dr. Bruce Baird	Vice Chairman
Dr. Philip A. Wenk	President

Dr. Joseph F. Rainey	Secretary
Mr. John Collier	Treasurer
Mr. J. Thomas Perry	Senior Vice-President and CFO

During the period under this examination, the Company established a procedure for the disclosure of conflict of interest. Conflict of interest statements were reviewed and no significant exceptions were noted.

At December 31, 2002 the Company retained the following professional services:

Auditing Services: Parker, Parker & Stickel
1000 NorthChase Drive, Suite 260
Goodlettsville, Tennessee 37072

Legal Services: Waller Lansden Dortch & Davis
511 Union Street, Suite 2100
Nashville, Tennessee 37219

Actuarial Services: Delta Dental Plan of Michigan
P.O. Box 30416
Lansing, Michigan 48909

CORPORATE RECORDS

It appears that the Company held its Board of Directors meetings in accordance with the by laws. From a review of the investment committee minutes, there was indication that adequate approval was given for Company transactions and events.

ADMINISTRATIVE SERVICES AGREEMENT

Effective June 1, 2002 the Company entered into a services agreement with Dental Claim Processing, Inc.,(DCP) Nashville, Tennessee which converted its name, October 25, 2002 to Group Benefit Administrators, LLC, (GBA) Nashville, Tennessee. According to the Tennessee Department of Commerce and Insurance, GBA became a licensed Third Party Administrator

entity August 2, 2002.

The Company agrees to provide services requested by GBA to include the following:

- Labor and supervision for processing and payment of claims;
- The usage of computer services of Delta Dental Plan of Michigan's claims processing system;
- Telephone and other communication services;
- General business support services for accounting, mailing, etc.
- Billing;
- Claimant services;
- Complaint handling;
- Eligibility maintenance;
- ERISA compliance services;
- Auditing and quality assurance;
- Any other services both parties agree upon.

In consideration of the services provided by the Company, GBA agrees to compensate the Company \$2 per employee, per month to be reviewed quarterly, plus any out-of-pocket expenses directly incurred by the Company.

Effective July 29, 2002 the Company entered into an agreement with Delta Dental Plan of Michigan (DDPMI) to provide computer services and related support allowing the Company to process dental claims. The term of the agreement begins January 25, 2000 and ends January 25, 2005 and can be automatically renewed annually on the anniversary of the effective date for one year terms. It was agreed to by both parties that the scope and nature of any and all work to be performed by DDPMI. DDPMI provides all needed management, technical capability, and other resources. DDPMI shall provide for Electronic Claims Submission (ECS) and Electronic Transmission (EFT) processing for the Company and any other company contracting with the Company for dental claims processing. However, DDPMI shall incur no expenses for the receipt of ECS claims or EFT claims associated with the transaction.

The Company is to pay DDPMI monthly computer and support services, including use of the claims processing system at \$.90 per claim. The monthly charge will be based upon the claims volume shown on the monthly Group Activity Report. Any claims processed by a subsidiary or affiliate of the Company will count toward the Company's claims volume and will be billed at the same rate as the Company's. When the Company's volume exceeds 1,000,000 per calendar year, the rate for the claims processing system will be adjusted to \$.85 per claim. Starting with September 2002, these rates will be subject to review and may only be adjusted downwards during the five year term of the agreement or any automatic renewal. The Company will pay DDPMI's implementation costs not to exceed \$175,000. Such cost will be paid at the rate of \$.25 per claim starting when production claims are being processed on DDPMI's system and

continuing until the implementation costs have been paid.

The Company entered into a Group Prepaid Dental Care Service Contract (sometimes referred to as the Master Contract) with HCA Management Services, L.P. The agreement is entitled "Participating Plan Agreement for Ceded National Account. The Master Contract states that dental benefits by the Company may be rendered by a Participating Plan. Delta Dental Plan of Kansas, California and Colorado are Individual Participating Plans which cover dental benefits furnished to covered persons whose place of employment are in the States of Kansas, California and Colorado. The Individual Participating Plan agrees to perform administrative functions, to pay dentists' charges for covered services and to furnish to the Company information concerning paid claims to fulfill reporting obligations. The Company agrees to make available to the Individual Participating Plan information relating to eligible persons. Each month, the Company will pay the Individual Plan amounts, less .05% administrative fee, 1% agent fee, and if applicable, any premium tax due the State of Tennessee.

The Company entered into a Group Administrative Services Contract to administer dental benefits for Group's self insured dental benefit plan. The Company will administer this plan as a Delta USA program. The Group will pay premiums to the Company in the amount and manner as disclosed on the declaration page. Premiums for Cobra-Members will be the same as for Members with the same coverage. Since the Group is self insured and will be funding the claim payments with a month's delay, the Company will require a deposit for the purpose of prepaying claims. The deposit will act as an imprest fund from which claims will be paid and then replenished with the monthly claims payment. If the Company has not received reimbursement for the claims paid or any administrative fee within five (5) calendar days of their due date, the Company may suspend any further payment of claims.

On October 1, 1990, an agreement was entered into by and between Delta Dental Plan of Michigan ("Actuary") and the Company for actuarial services in connection with its pre-paid dental plan. Payment to the actuary for services provided are set forth in the agreement.

INSURANCE HOLDING COMPANY SYSTEM

The Company is not part of an insurance holding company system since it is a nonprofit dental service corporation, pursuant to the Tenn. Code Ann. § 56-11-201(b)(7)(D).

AFFILIATED COMPANIES

According to management, Group Benefit Association (GBA) signed a contract with Renaissance Life and Health Insurance Company (RLHIC), an Indiana company to process its dental claims. Since GBA has no staff or system, GBA subcontracted with the Company for processing services. RLHIC did not have any covered lives until 2002, and the Company did not pay any claims for

GBA in 2002. However, as of August 1, 2003, the Company processed three (3) claims.

Management indicated that the Company was desirous of forming an incorporated holding company which in turn would own part or all of its subordinate companies each of which would be formed as a limited liability corporation (LLC). Gray Goose Holding Corporation was formed as the holding company and is wholly owned by the Company. GBA name was changed from Dental Claims Processing, Inc., (DCP), which in turn became an LLC. Individuals responsible for forming Gray Goose also formed another LLC, American Health Services, LLC. During this same time frame a local third party administrator was identified for sale, American Group Administrators, Inc., (AGA). It was decided that GBA would purchase AGA's assets and assume its contracts, but would not purchase the company. Delta Dental Plan of Michigan (DDPMI) also expressed an interest to purchase AGA. According to the Company, DDPMI purchased a 40 percent interest in GBA and Gray Goose holds the other 60 percent. As stated by management, the Company's investment in Gray Goose Holding Corporation of \$1,750,000 is considered a non-qualified investment. For purposes of this examination, it would appear that the Company is not subject to the Tenn. Code Ann. § 56-11-206 for transactions within a holding company system.

SUBSEQUENT EVENTS

Effective February 19, 2003, the Company owns 100 percent of Gray Goose Holding Corporation and Gray Goose in turn owns 60 percent of GBA.

In February, 2003 GBA received \$1,500,000 from Gray Goose and \$1,000,000 from DDPMI. GBA purchased AGA for \$2,000,000, leaving GBA with working capital of \$500,000.

Also, in February, 2003 Gray Goose obtained a limited liability company, Health Services of America, LLC. The purpose of this insurance agency is to sell malpractice insurance to dentist located in the State of Tennessee. This company was obtained for \$50,000. This transaction left Gray Goose with a balance of \$200,000.

FIDELITY BOND AND OTHER INSURANCE

The Company entered into an employee dishonesty coverage Form A with The Cincinnati Insurance Company of Cincinnati, Ohio. The policy was effective October 1, 2002 to October 1, 2005. The limits of coverage were \$200,000 with a deductible of \$1,000. The policy also includes theft, disappearance and destruction coverage Form C with limits of \$10,000 and \$5,000 respectively, for losses inside or outside the premises with deductibles of \$1,000 each. During the review of this fidelity bond, it appears that the amount of the bond is less than the suggested minimum as reflected in the NAIC Financial Condition Examiners Handbook. It should be noted that the last examination report indicated that the Company's fidelity bond was less than the

NAIC's minimum amount.

In addition to the above fidelity bond, the Company has a business auto policy, a commercial property policy, a commercial general liability policy and a commercial umbrella liability policy. All insurance is covered by The Cincinnati Insurance Company, Cincinnati, Ohio which is a licensed insurance company in the State of Tennessee.

OFFICERS', EMPLOYEES', AND WELFARE AND PENSION PLANS

The Company provides a profit-sharing plan for all eligible employees. The Company funds the plan at the rate of five percent (5%) of the employee's annual salary. The contributions vest to the employee as follows:

<u>Years of Service</u>	<u>Percentage Vested</u>
0-1	0%
2	20%
3	40%
4	60%
5	80%
6	100%

The Company also offers a 401(k) deferred compensation plan for eligible employees. On January 1, 1999 the Company began matching 100% of the employee's contribution, up to a maximum of five percent (5%) of the employee's annual salary, based on an annual minimum net gain by the Company of \$700,000.

The Internal Revenue Service required all plan documents to be updated in the year 2002. These are the changes the Company has made to its 401(k) plan in 2003:

- The definition of "compensation" for the 401(k) includes regular pay, overtime pay, commissions and any bonus. For the Profit Sharing, the definition will include regular pay and overtime pay.
- The vesting schedule for the 401(k) plan should be removed so that matching contributions vest immediately. The six (6) year vesting schedule for the Profit Sharing will stay in place.
- The matching contribution to the 401(k) is changed to a one to one match for the first three percent (3%) of compensation and then a two for one (the Company will contribute one of each two contributed by the employee) match for the next two percent (2%) of compensation. The maximum 401(k) matching contribution for the Company will be four percent (4%).
- The Company's contribution for the Profit Sharing plan would be increased to six percent

(6%).

TERRITORY AND PLAN OF OPERATION

At December 31, 2002, the Company was licensed to transact business only in the State of Tennessee.

The Company provides services to various groups through prepaid dental service plans. In many cases, the Company is at-risk and in other cases, the Company provides administrative services only. For national groups located in Tennessee, which are insured through other Delta Dental service plans, the Company provides administrative assistance by processing and paying those group's insurance claims. The Company makes payments for claims and is reimbursed dollar for dollar and receives an administrative fee for the services provided.

The Company offers three basic products: (1) Delta Premier – a fee-for-service product; (2) Delta Preferred Option – a discounted PPO product and (3) Delta Care – a capitation product. The usual term of coverage is for one (1) year and all accounts are billed on a monthly basis. The Company markets its products via direct sales by its internal marketing department and through independent agents. During the period under review and through the date of this report, all contract and subscriber certificate preparation was performed by the Company and was subject to the underwriting rules adopted by the Company and promulgated in accordance with approved rates. Claims are received from the providers at the Company's office by mail or electronically via a bulletin board system.

GROWTH OF COMPANY

Comparative financial data, as reported in the Company's financial statements beginning with the previous examination, is as follows:

<u>Year</u>	<u>Net Premium Income</u>	<u>Claims Incurred</u>	<u>Admitted Assets</u>	<u>Reserves and Unassigned Surplus</u>
1998	\$12,184,866	\$11,986,127	\$ 7,191,454	\$ 2,394,682
1999	18,349,421	17,823,825	9,316,837	4,667,903
2000	25,751,683	25,993,239	11,875,500	5,990,416
2001	29,115,760	29,110,432	13,812,524	7,828,575
2002	31,871,943	30,651,254	16,188,339	10,602,491

In the year 2000, the Company's incurred claims amount exceeded its net premium income. In the year 2001, the Company incurred claims amount came within approximately \$5,000 of its net premium income.

TIMELY REIMBURSEMENT OF HEALTH INSURANCE CLAIMS

According to representatives of the Tennessee Department of Commerce and Insurance's Legal Staff and Consumer Insurance Services, Tenn. Code Ann. § 56-7-109 (a)(2) prompt payment does not apply to the Company in that it is considered a pre-paid dental plan.

MARKET CONDUCT ACTIVITIES

Policy Forms and Underwriting Practices

A review was made of the Company's approved policy form and matched to a specimen policy form disseminated to the public. Based upon that review there were no significant exceptions noted.

Advertising

A review was made of the Company's advertisement file. It appears that none of the material was objectionable or otherwise misleading.

Treatment of Policyholders

During the course of this examination, the Examiner reviewed claims that were denied or rejected. From that review, it appeared that the claims that were denied were in fact based on reasonable cause.

Privacy of Non-Public Personal Information

Based upon a review of the Company's policy for the disclosure of privacy of non-public personal information, it appears that the Company is in compliance with the Tenn. Comp. R. & Regs. 0780-1-72.

ACCOUNTS AND RECORDS

The Company utilizes a local Microsoft Windows NT network to perform support functions of e-mail, report distribution, file sharing, communications, information dissemination and ancillary claims processing functions. The Company utilizes Delta Dental Plan of Michigan (DDPMI) as a service bureau to perform claims processing. DDPMI uses an Amdahl CMOS mainframe with EMC fiber channel connected storage. Group, member, claims, provider and procedure databases

are maintained on the DDPMI mainframe with custom software. DDPMI provides programmer analysts and technical support personnel to customize programs to meet the Company's needs. Accounting records, including the general ledger, accounts payable and accounts receivable are maintained on the local network running on Mas200 financial software.

Following is a discussion of how the Company reports its handling of the Administrative Services Contract group business in its financial accounts:

The Administrative Services Contract groups reimburse the Company for the claims paid. The Company recognizes that there may be credit risk from the time it issues the claim payments until the time the group reimburse it for claims paid. The Company requires many groups to "Pre-Fund" claim payments, so that it is using the group's funds to pay their claims. Generally, these groups are the ones that reimburse for paid claims on a monthly basis. The Company will review the sufficiency of the "Pre-Funds" as part of the renewal process for the group. For these groups, the Company feels that the "Pre-Funds" cover the credit risk.

Other groups' financial arrangements with the Company are to make their reimbursement for claims on different intervals, usually weekly. Their purpose is to control the management of their cash. Since the Company does not offer the service of adjudication of claims, billing the groups and then issuing the claim payments, as do some medical plans, the Company agrees to not require weekly groups to post a "Pre-Fund". After considering the Company's schedule for issuing checks, weekly billing to the groups, receiving electronic reimbursement, and the float on the claim payment checks, the Company recognizes that there is some credit risk to the Company.

This risk is somewhat limited because if a group should not meet its payment agreement, the Company has the right to immediately discontinue the payment of claims. To date, the Company has not suffered any loss from this practice, but as the number of groups increases along with the total amount involved, exposure for some loss will increase.

The Company has established this reserve to cover potential losses for extending this credit to groups. Not having any previous losses to measure, the Company is not sure about the factors to use for this reserve. Having reviewed the number of groups involved and the average weekly claims billing over a three-month period, the Company indicates an establishment of 20% of the highest weekly average during the three month surveyed as a reserve. According to the Company, the percentage and basis of the reserve shall be reviewed and adjusted annually based on the Company's experience.

A sample of bonds purchased was matched to broker's invoices to ascertain whether the securities were recorded on the trade date and not the settlement date in accordance with the NAIC Accounting Practices and Procedures Manual SSAP No. 26, paragraph 4. Based upon the sample, it was noted that the Company recorded its securities on the settlement date, contrary to SSAP No. 26, paragraph 4.

A sample of common stocks purchased was matched to the First Tennessee statement of transactions to ascertain whether the securities were recorded on the trade date and not the settlement date in accordance

with the NAIC Accounting Practices and Procedures Manual SSAP No. 30, paragraph 5. Based upon the sample, it was noted that the Company recorded its securities on the settlement date, contrary to SSAP No. 30, paragraph 5.

During the course of this examination, the Company provided the Examiner the necessary records in order to perform this examination in an expeditious manner. Based upon the promptness and the turn around in obtaining such information, it appears that the Company has the capability of having its records electronically maintained pursuant to the Tenn. Code Ann. § 56-30-133.

For the period under review, Parker, Parker and & Stickel, PLC are the certified public accountants who has rendered the annual reports of the Company. Because of the change in partnership, compliance has been adhered to pursuant to Tenn. Comp. R. & Reg. § 0780-1-65.07(3) which states that no partner or other person responsible for rendering a report may act in that capacity for more than seven (7) years.

A review was made of the Company's calculation for risk base capital, and no significant exceptions were noted.

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2002, the Company had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2002, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 7,160,222	\$ 81,397	\$ 7,078,825
Common Stocks	609,455		609,455
Real Estate:			
Properties Occupied by the Company	1,380,188		1,380,188
Cash	3,256,927		3,256,927
Accident and health premiums due and unpaid	427,224	5,147	422,077
Investment income due or accrued	64,089		64,089
Furniture and Equipment	758,690	758,690	0
Aggregate write-ins for other than invested assets*	3,589,164	212,386	3,376,778
Totals	<u>\$ 17,245,959</u>	<u>\$ 1,057,620</u>	<u>\$ 16,188,339</u>
*Aggregate write-ins for other than invested assets consist of the following:			
Administrative fees receivable	\$ 218,355	\$ 35,956	\$ 182,399
Capitation payments receivable	3,675		3,675
National accounts receivable	206,042		206,042
Unpaid claims receivable	311,734		311,734
Prepaid expenses	140,861	140,861	0
Other assets noncurrent	26,731	26,731	0
Paid claims receivable	2,730,315	57,387	2,672,928
Allowance for doubtful accounts	(48,887)	(48,887)	0
Miscellaneous receivable	338	338	0
Totals	<u>\$ 3,589,164</u>	<u>\$ 212,386</u>	<u>\$ 3,376,778</u>

LIABILITIES, CAPITAL AND SURPLUS

		<u>Covered</u>
Claims Unpaid		\$ 1,975,000
Unpaid claims adjustment expense		292,575
Premium received in advance		201,826
General expenses due or accrued		1,491,943
Amounts withheld or retained for account of others		989,246
Aggregate write-ins for other liabilities*		<u>635,258</u>
Total liabilities		\$ 5,585,848
Statutory Reserves	4,585,537	
Unassigned funds (surplus)	<u>6,016,954</u>	
Total capital and surplus		<u>10,602,491</u>
Totals		<u><u>\$ 16,188,339</u></u>

*Aggregate write-ins for other liabilities consist of the following:

Deferred revenue	\$ 143,456
Administrative Services Contract claims	<u>491,802</u>
Totals	<u><u>\$ 635,258</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	<u>\$ 31,871,943</u>
Total	\$ 31,871,943
Claims incurred	<u>30,651,254</u>
Total	30,651,254
Claims adjustment expenses	809,068
General administrative expenses	<u>2,928,227</u>
TOTAL	\$ 34,388,549
Net underwriting loss	<u>(2,516,606)</u>
Net investment income earned	292,982
Net realized capital loss	<u>(303,527)</u>
Net investment loss	(10,545)
Aggregate write-ins for other income or expenses	<u>5,242,779</u>
Net income before federal income taxes	<u>2,715,628</u>
Net Income	<u>\$ 2,715,628</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	<u>\$ 7,828,575</u>
Net income	2,715,628
Net unrealized capital gains	191,005
Change in nonadmitted assets	<u>(132,717)</u>
Net change in capital and surplus for the year	<u>2,773,916</u>
Capital and surplus, December 31, current year	<u><u>\$ 10,602,491</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Capital and surplus, December 31, prior year	\$ 3,424,408
Net gain	1,105,273
Net unrealized capital losses	(11,188)
Change in nonadmitted assets	<u>149,410</u>
Capital and surplus, December 31, 1999	\$ 4,667,903
Net losses	1,391,923
Net unrealized capital losses	(308,950)
Change in nonadmitted assets	<u>239,540</u>
Capital and surplus, December 31, 2000	\$ 5,990,416
Net income	1,896,826
Net unrealized capital losses	(21,768)
Change in nonadmitted assets and related items	<u>(36,899)</u>
Capital and surplus, December 31, 2001	\$ 7,828,575
Net income	2,715,628
Net unrealized capital gains	191,005
Change in nonadmitted assets	<u>(132,717)</u>
Capital and surplus, December 31, 2002	<u>\$ 10,602,491</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

During the course of this examination there were minor changes noted, but in the aggregate or singularly, the changes were considered immaterial.

COMMENTS AND RECOMMENDATIONS

Comments:

The page number referenced in a parenthesis relates to the examination page where the comment is located.

1. The amount of the Company's fidelity bond is less than the suggested minimum as reflected in the NAIC Financial Condition Examiners Handbook. It should be noted that the last examination report indicated that the Company's fidelity bond was less than the NAIC'S minimum amount. (Page 9)
2. A sample of bonds purchased was matched to broker's invoices to ascertain whether the securities were recorded on the trade date and not the settlement date in accordance with the NAIC Accounting Practices and Procedures Manual SSAP No. 26, paragraph 4. Based upon the sample, it was noted that the Company recorded its securities on the settlement date, contrary to SSAP No. 26, paragraph 4. (Page 13)
3. A sample of common stocks purchased was matched to the First Tennessee statement of transactions to ascertain whether the securities were recorded on the trade date and not the settlement date in accordance with the NAIC Accounting Practices and Procedures Manual SSAP No. 30, paragraph 5. Based upon the sample, it was noted that the Company recorded its securities on the settlement date, contrary to SSAP No. 30, paragraph 5. (Page 13)
4. During the course of this examination, the Company provided the Examiner the necessary records in order to perform this examination in an expeditious manner. Based upon the promptness and the turn around in obtaining such information, it appears that the Company has the capability of having its records electronically maintained pursuant to the Tenn. Code Ann. § 56-30-133. (Page 14)

Recommendations:

The Company should perform the calculation of the fidelity bond amount as noted in the NAIC Financial Examiners Handbook and increase its fidelity bond accordingly.

The Company should record the settlement date for its bonds and stocks when purchases

are made.

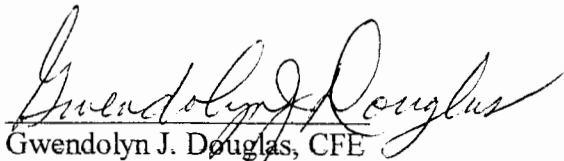
Pursuant to the Tenn. Code Ann. § 56-30-133 it is recommended that the Company be able to maintain its records electronically.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Delta Dental Plan of Tennessee, Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2002, the Company had admitted assets of \$16,188,339 and liabilities, exclusive of capital, of \$5,585,848. Thus, there existed for the additional protection of the policyholders, the amount of \$10,602,491 in the form of a statutory reserve and unassigned funds (surplus).

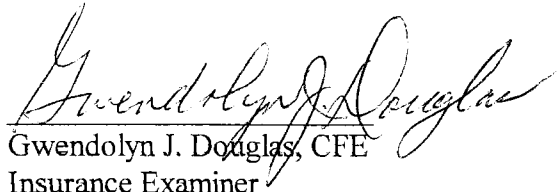
Respectfully submitted,



Gwendolyn J. Douglas, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Examination Affidavit

The undersigned deposes and says that she has duly executed the attached examination report of Delta Dental Plan of Tennessee dated January 6, 2004 and made as of December 31, 2002, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

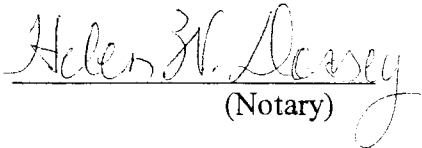


Gwendolyn J. Douglas, CFE
Insurance Examiner
State of Tennessee
N.A.I.C., Southeastern Zone

County Davidson
State Tennessee

Subscribed and sworn to before me

This 13th day of
January, 2004.


(Notary)

ORGANIZATIONAL CHART

None as of December 31, 2002.